

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

EA-06 FRB-03 INR-07 IO-10 NEA-10 NSAE-00 OPIC-03

LAB-04 SIL-01 L-03 OIC-02 FEA-01 /104 W

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PASS FRB, CEA, AND TREAS

E.O. 11652: N/A

TAGS: ECON, OECD

SUBJECT: EPC DISCUSSION OF GROWTH STUDY BY WP-2 AND
U.S. PROPOSAL FOR DISTINGUISHED ECONOMISTS GROUP

REF: STATE 133569

1. SUMMARY. U.S. PROPOSAL FOR STUDY BY DISTINGUISHED
ECONOMISTS OF POLICY PROBLEMS RELATED TO MEDIUM-TERM
NON-INFLATIONARY GROWTH WAS DISCUSSED AT EPC EXPANDED
BUREAU DINNER ON JUNE 16 AND AT EPC PLENARY JUNE 17.
EPC RECOMMENDED PROPOSAL BE REFERRED BY SECGEN VAN
LENNEP TO OECD COUNCIL. END SUMMARY.

2. IN EPC EXPANDED BUREAU JUNE 16, U.S. REP (MACAVOY)
DISCUSSED PROPOSAL BY SECRETARY KISSINGER FOR CREATION
GROUP OF DISTINGUISHED ECONOMISTS TO PRODUCE POLICY
OPTIONS FOR ACHIEVING NON-INFLATIONARY MEDIUM-TERM GROWTH,
COMPLEMENTING WORK ON GROWTH POTENTIAL AND OUTLOOK BY
WP-2. MACAVOY INDICATED U.S. WOULD BE PREPARED TO FIND
HIGHLY QUALIFIED PERSON WITH AN INTERNATIONAL REPUTATION
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WHO COULD ACT AS CHAIRMAN OF GROUP. HE UNDERLINED THAT

SUFFICIENT RESOURCES NEEDED TO BE MADE AVAILABLE TO
ALLOW THE GROUP TO PRODUCE A SOLIDLY-BASED RESULT.

3. REACTION OF REPS FROM OTHER COUNTRIES WAS GENERALLY
POSITIVE. CANADIAN REP (SLATER) STRONGLY ENDORSED PRO-
POSAL, ADDING IT MUST BE WELL-FINANCED. ONLY U.K. AND
GERMANY VOICED SOME DOUBTS. U.K. (WASS) EXPRESSED CON-
CERN THAT WORK BY ECONOMISTS GROUP MIGHT OVERLAP WORK BY
OTHER EPC WORKING PARTIES. FRG (TIETMEYER) SAID HE
WOULD HAVE TO CONSULT FURTHER WITH BONN, BUT WAS
CONCERNED THAT STUDY WOULD BE TOO THEORETICAL TO BE OF
USE. ITALIANS AND JAPANESE SUPPORTED PROPOSAL. FRENCH
DID NOT COMMENT.

4. AT EPC, MARRIS PRESENTED REPORT ON WP-2 STUDIES
UNDERWAY, INCLUDING SERIES OF GOVERNMENT EXPENDITURE
STUDIES AND GROWTH STUDY. HE COMMENTED THAT PUBLIC
EXPENDITURE STUDIES WERE VALUABLE AND WOULD TAKE UNTIL
END OF 1976 TO COMPLETE. HE SAID PLANS WERE FOR W/P-2
GROWTH STUDY TO PROCEED IN TWO PHASES. FIRST
PHASE WOULD LOOK AT GROWTH PROBLEMS FACING MEMBER
COUNTRIES BETWEEN 1976 AND 1978, AS THEY COME OUT OF
CURRENT RECESSION AND FACE POSSIBLE BOTTLENECKS AND
RENEWED INFLATIONARY PRESSURES. SECOND PHASE
WOULD LOOK IN MORE DETAIL AT A NUMBER OF
DIFFERENT TYPES OF PROBLEMS RELATED TO GROWTH POTENTIAL
IN THE PERIOD 1978 TO 1985, POSSIBLY INCLUDING
INTERRELATIONSHIP OF INFLATION AND GROWTH; INVESTMENT
REQUIREMENTS TO ADAPT TO RAPID STRUCTURAL SHIFTS; GROWTH
OF PUBLIC SECTOR EXPENDITURES RELATIVE TO PRIVATE
SECTOR; LABOR SUPPLY AND MIGRATION; IMPACT OF SECTORAL
SHIFTS AS A CONSEQUENCE OF CHANGES IN RELATIVE PRICES;
AND IMPACT OF LIKELY CHANGES IN TERMS OF TRADE WITH
DEVELOPING COUNTRIES.

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5. MARRIS SAID IN FIRST PHASE WP-2 WOULD DEVELOP SIMPLE PRELIMINARY PROJECTIONS FOR ITS MEETING IN DECEMBER, AND A FINAL REPORT BY ABOUT NEXT MAY. FOR THE SECOND PHASE, HE SAID MORE RESOURCES FOR WP-2 WOULD BE NEEDED. (FYI IT APPEARS TO US THAT THIS WORK IS UNLIKELY TO BE COMPLETED ON A SCHEDULE THAT WOULD MAKE IT USEFUL TO ECONOMIST GROUP. END (FYI)

6. MACAVOY WELCOMED MARRIS' REPORT ON WP-2 PROGRAM TO UNDERTAKE PROBLEM-ORIENTED TECHNICAL STUDY OF FACTORS UNDERLYING OECD-AREA GROWTH POTENTIAL AND PRESPECTS OVER THE REST OF THE 1970'S. HE SAID U.S. CONSIDERS THIS WORK IMPORTANT AND WORTHY OF TANGIBLE SUPPORT. HE NOTED OECD ECONOMIES HAVE BEEN UNDERGOING VARIETY OF STRUCTURAL CHANGES--MANY DIFFICULT TO ISOLATE AND UNDERSTAND--WHICH REQUIRE HARD, PRACTICAL LOOK AT BOTH UNDERLYING ELEMENTS OF GROWTH AND POLICIES THAT MAY BE REQUIRED TO RETURN TO PATH OF SUSTAINABLE NON-INFLATIONARY GROWTH. FOR THIS REASON, HE SAID, SECRETARY KISSINGER SUGGESTED WE ASK A SPECIAL GROUP OF DISTINGUISHED ECONOMISTS TO TAKE AN INDEPENDENT LOOK AT THE POLICY
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ISSUES AND GIVE THEIR RECOMMENDATIONS. MACAVOY SAID WE SEE THIS GROUP'S WORK COMPLEMENTARY TO THE TECHNICAL ANALYSIS AND PROJECTION OF GROWTH IN WP-2, AND GROUP WOULD DRAW ON WP-2 TECHNICAL WORK. HE SAID THE ECONOMISTS GROUP NEEDS TO BE ADEQUATELY STAFFED AND SUPPORTED IF THEY ARE TO PRODUCE MEANINGFUL RESULTS. MACAVOY EXPRESSED HOPE THAT BASED ON THE FAVORABLE REACTIONS TO OUR PROPOSALS, THE SEC GEN WILL BE ENCOURAGED TO PUT FORWARD SPECIFIC SUGGESTIONS TO THE OECD COUNCIL ON BRINGING THIS SPECIAL STUDY GROUP INTO BEING.

7. THE FRG REP (TIETMEYER) SAID HIS GOVERNMENT WOULD FIND THE U.S. PROPOSAL USEFUL ON CONDITION IT WAS ORIENTED TOWARDS PRACTICAL PROBLEMS RATHER THAN EMBARKING ON FUTURISTIC, THEORETICAL MODEL-BUILDING ALONG LINES OF CLUB OF ROME. HE SAID HE BELIEVED THE WP-2 GROWTH STUDY SHOULD BE LIMITED TO A FIVE-YEAR TIME HORIZON. TIETMEYER INDICATED RESERVATIONS ABOUT ADDITIONAL RESOURCES FOR GROWTH STUDIES SAYING SECRETARIAT SHOULD OBTAIN NEEDED RESOURCES BY SHIFTING ITS PRIORITIES. HE THOUGHT, FOR EXAMPLE, THE WP-2 PUBLIC EXPENDITURE STUDY SHOULD BE DISCONTINUED. JOHN STONE (AUSTRALIA) SUPPORTED DISCONTINUATION OF EXPENDITURE STUDY--A COURSE SYMPATHETICALLY VIEWED BY U.S. DELEGATION TO WP-2 AT THAT TIME. MARRIS DEFENDED PUBLIC EXPENDITURE STUDY CONTINUATION. THE U.K. (WASS) COMMENTED ONLY IN SUPPORT OF MARRIS.

8. EPC CHAIRMAN ALLEN CONCLUDED THAT COMMITTEE RECOMMENDED TO SEC GEN TO PRESENT PROPOSAL TO OECD COUNCIL ON CREATION OF GROWTH GROUP.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INSTRUCTIONS, POLICIES, ECONOMIC PROGRAMS, COMMITTEE MEETINGS, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OECDP15863
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750213-1045
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750634/aaaabffv.tel
Line Count: 190
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 133569
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 14 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 MAY 2003 by MartinML>; APPROVED <15 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EPC DISCUSSION OF GROWTH STUDY BY WP-2 AND U.S. PROPOSAL FOR DISTINGUISHED ECONOMISTS GROUP
TAGS: ECON, OECD, EPC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006